

CENIKOR FOUNDATION
FINANCIAL STATEMENTS
AND OMB CIRCULAR A-133 REPORTS
JUNE 30, 2013 AND 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Cenikor Foundation

We have audited the accompanying financial statements of Cenikor Foundation (a non-profit Texas corporation), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cenikor Foundation as of June 30, 2013 and 2012, and the changes in its net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2013, on our consideration of Cenikor Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cenikor Foundation's internal control over financial reporting and compliance.

Hagan & Pearson Company, P.C.

Houston, Texas
November 13, 2013

CENIKOR FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

ASSETS	2013	2012
Cash and cash equivalents	\$ 3,418,566	\$ 3,192,852
Accounts receivable, net	1,266,134	924,177
Grants receivable	283,445	288,000
Pledges receivable	10,000	35,000
Note receivable	-	148,838
Certificates of deposit	362,810	361,102
Property and equipment, net	9,338,652	8,629,175
Other assets, net	<u>76,440</u>	<u>55,259</u>
TOTAL ASSETS	<u>\$ 14,756,047</u>	<u>\$ 13,634,403</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued liabilities	\$ 1,489,205	\$ 1,182,978
Note payable	<u>1,024,881</u>	<u>706,324</u>
TOTAL LIABILITIES	<u>2,514,086</u>	<u>1,889,302</u>
Unrestricted net assets		
Undesignated	11,042,629	10,611,956
Board designated	1,013,107	1,008,710
Temporarily restricted net assets	157,010	119,435
Permanently restricted net assets	<u>29,215</u>	<u>5,000</u>
TOTAL NET ASSETS	<u>12,241,961</u>	<u>11,745,101</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,756,047</u>	<u>\$ 13,634,403</u>

CENIKOR FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenues:				
Public support:				
Direct government aid	\$ 886,616	\$ -	\$ -	\$ 886,616
Special events revenue	194,397	-	-	194,397
Contributions	422,022	309,288	24,215	755,525
In-kind contributions	<u>1,682,583</u>	<u>-</u>	<u>-</u>	<u>1,682,583</u>
Total public support	3,185,618	309,288	24,215	3,519,121
Revenues:				
Vocational services	6,774,100	-	-	6,774,100
Private pay	81,400	-	-	81,400
Medicaid and private insurance	1,401,027	-	-	1,401,027
Grant and contract revenue	3,082,143	-	-	3,082,143
Interview and admission fees	265,723	-	-	265,723
Re-entry rent	250,383	-	-	250,383
Interest income	5,592	-	-	5,592
Loss on disposal of property and equipment	(6,971)	-	-	(6,971)
Other income, net	81,199	-	-	81,199
Net assets released from restrictions	<u>271,713</u>	<u>(271,713)</u>	<u>-</u>	<u>-</u>
Total public support and revenues	<u>15,391,927</u>	<u>37,575</u>	<u>24,215</u>	<u>15,453,717</u>
Expenses:				
Program services	12,514,291	-	-	12,514,291
General and administrative	1,813,132	-	-	1,813,132
Fundraising	<u>629,434</u>	<u>-</u>	<u>-</u>	<u>629,434</u>
Total expenses	<u>14,956,857</u>	<u>-</u>	<u>-</u>	<u>14,956,857</u>
Change in net assets	435,070	37,575	24,215	496,860
Net Assets, beginning of year	<u>11,620,666</u>	<u>119,435</u>	<u>5,000</u>	<u>11,745,101</u>
Net Assets, end of year	<u>\$ 12,055,736</u>	<u>\$ 157,010</u>	<u>\$ 29,215</u>	<u>\$ 12,241,961</u>

See accompanying notes.

CENIKOR FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenues:				
Public support:				
Direct government aid	\$ 715,703	\$ -	\$ -	\$ 715,703
Special events revenue	160,862	-	-	160,862
Contributions	380,618	242,000	-	622,618
Contribution of Odyssey House	1,060,887	44,676	5,000	1,110,563
In-kind contributions	<u>1,153,472</u>	<u>-</u>	<u>-</u>	<u>1,153,472</u>
Total public support	3,471,542	286,676	5,000	3,763,218
Revenues:				
Vocational services	5,899,764	-	-	5,899,764
Private pay	29,688	-	-	29,688
Medicaid and private insurance	589,166	-	-	589,166
Grant and contract revenue	2,803,941	-	-	2,803,941
Interview and admission fees	288,570	-	-	288,570
Re-entry rent	155,021	-	-	155,021
Interest income	13,216	-	-	13,216
Gain on disposal of property and equipment	14,707	-	-	14,707
Other income, net	103,302	-	-	103,302
Net assets released from restrictions	<u>441,524</u>	<u>(441,524)</u>	<u>-</u>	<u>-</u>
Total public support and revenues	<u>13,810,441</u>	<u>(154,848)</u>	<u>5,000</u>	<u>13,660,593</u>
Expenses:				
Program services	10,032,379	-	-	10,032,379
General and administrative	1,502,736	-	-	1,502,736
Fundraising	<u>509,615</u>	<u>-</u>	<u>-</u>	<u>509,615</u>
Total expenses	<u>12,044,730</u>	<u>-</u>	<u>-</u>	<u>12,044,730</u>
Change in net assets	1,765,711	(154,848)	5,000	1,615,863
Net Assets, beginning of year	<u>9,854,955</u>	<u>274,283</u>	<u>-</u>	<u>10,129,238</u>
Net Assets, end of year	<u>\$ 11,620,666</u>	<u>\$ 119,435</u>	<u>\$ 5,000</u>	<u>\$ 11,745,101</u>

See accompanying notes.

CENIKOR FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	Program Services	General and Administrative	Fund Raising	Total
Direct Resident Expenses:				
Food	\$ 1,184,153	\$ -	\$ -	\$ 1,184,153
Clothing and sundry	24,572	-	-	24,572
Education	33,353	-	-	33,353
Commissary	202,269	-	-	202,269
Lab analysis	29,559	-	-	29,559
Facility licensure	19,956	-	-	19,956
Residential travel	4,907	-	-	4,907
Donated resident merchandise	1,458,843	-	-	1,458,843
Other	61,455	-	-	61,455
Total Direct Resident Expenses	<u>3,019,067</u>	<u>-</u>	<u>-</u>	<u>3,019,067</u>
Other Expenses				
Accounting	6,690	25,349	-	32,039
Advertising	1,680	8,081	-	9,761
Bad debt expense	326,274	1,452	-	327,726
Computer support	90,399	31,071	7,485	128,955
Employee benefits	359,172	72,253	24,574	455,999
Household supplies	48,438	-	-	48,438
Human resources	12,454	29,197	-	41,651
Vocational services supplies	34,577	-	-	34,577
Lawn care supplies	11,794	-	-	11,794
Insurance	678,498	48,626	44,441	771,565
Interest	32,106	-	-	32,106
Kitchen supplies	64,708	-	-	64,708
Medical	236,681	-	-	236,681
Office expense	42,905	14,347	-	57,252
Parking and fuel	266,416	25,639	18,982	311,037
Payroll taxes	404,034	36,599	19,305	459,938
Pension expense	167,373	58,012	16,017	241,402
Postage expense	11,253	3,537	-	14,790
Professional fees	135,417	178,127	-	313,544
Professional training	48,103	59,037	9,840	116,980
Property taxes	1,017	23	-	1,040
Public relations	22,250	51,427	-	73,677
Rental and lease	71,006	52,943	8,824	132,773
Repairs and maintenance	248,506	2,181	-	250,687
Salaries	4,599,360	929,385	299,456	5,828,201
Relocation allowance	-	5,525	-	5,525
Shipping	4,266	5,425	-	9,691
Telephone	75,427	11,332	4,522	91,281
Employee meals and recognition	7,474	6,425	-	13,899
Travel, board and staff	24,027	62,936	8,009	94,972
Travel, admissions and outreach	11,608	-	-	11,608
Utilities	492,713	30,244	32,006	554,963
Vehicle maintenance	81,580	-	-	81,580
Direct cost of event services	-	-	51,284	51,284
Donated services and merchandise	138,170	-	33,606	171,776
Other expenses	4,123	2,057	-	6,180
Depreciation and amortization	734,725	61,902	51,083	847,710
Total Other Expenses	<u>9,495,224</u>	<u>1,813,132</u>	<u>629,434</u>	<u>11,937,790</u>
Total Functional Expenses	<u>\$ 12,514,291</u>	<u>\$ 1,813,132</u>	<u>\$ 629,434</u>	<u>\$ 14,956,857</u>

See accompanying notes.

CENIKOR FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

	Program Services	General and Administrative	Fund Raising	Total
Direct Resident Expenses:				
Food	\$ 932,533	\$ -	\$ -	\$ 932,533
Clothing and sundry	22,728	-	-	22,728
Education	31,731	-	-	31,731
Commissary	190,575	-	-	190,575
Lab analysis	22,336	-	-	22,336
Facility licensure	4,860	-	-	4,860
Residential travel	3,260	-	-	3,260
Donated resident merchandise	1,055,225	-	-	1,055,225
Other	58,569	-	-	58,569
Total Direct Resident Expenses	<u>2,321,817</u>	<u>-</u>	<u>-</u>	<u>2,321,817</u>
Other Expenses				
Accounting	6,410	27,231	-	33,641
Advertising	65	-	-	65
Bad debt expense	34,053	-	-	34,053
Computer support	57,531	25,325	5,719	88,575
Employee benefits	344,742	65,390	22,231	432,363
Household supplies	42,557	-	-	42,557
Human resources	7,039	31,108	-	38,147
Vocational services supplies	28,865	-	-	28,865
Lawn care supplies	4,226	-	-	4,226
Insurance	581,982	33,860	29,102	644,944
Interest	10,848	-	-	10,848
Kitchen supplies	45,681	-	-	45,681
Medical	188,431	-	-	188,431
Office expense	38,492	12,459	-	50,951
Parking and fuel	234,523	22,202	15,942	272,667
Payroll taxes	369,865	60,846	18,941	449,652
Pension expense	131,598	53,126	13,254	197,978
Postage expense	13,146	2,658	-	15,804
Professional fees	66,032	163,423	18,641	248,096
Professional training	37,871	43,808	6,419	88,098
Property taxes	53	249	-	302
Public relations	24,210	65,742	-	89,952
Rental and lease	52,680	33,023	5,037	90,740
Repairs and maintenance	216,057	-	-	216,057
Salaries	3,716,515	684,936	229,286	4,630,737
Relocation allowance	-	3,381	-	3,381
Shipping	2,281	6,566	-	8,847
Telephone	81,303	11,926	5,323	98,552
Employee meals and recognition	5,926	12,866	-	18,792
Travel, board and staff	28,669	65,552	7,171	101,392
Travel, admissions and outreach	8,085	-	-	8,085
Utilities	471,472	28,826	31,574	531,872
Vehicle maintenance	87,227	-	-	87,227
Direct cost of event services	-	-	43,786	43,786
Donated services and merchandise	81,921	-	13,536	95,457
Other expenses	16,279	-	-	16,279
Depreciation and amortization	673,927	48,233	43,653	765,813
Total Other Expenses	<u>7,710,562</u>	<u>1,502,736</u>	<u>509,615</u>	<u>9,722,913</u>
Total Functional Expenses	<u>\$ 10,032,379</u>	<u>\$ 1,502,736</u>	<u>\$ 509,615</u>	<u>\$ 12,044,730</u>

See accompanying notes.

CENIKOR FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 496,860	\$ 1,615,863
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash net assets of acquired organizations	10,162	(1,049,783)
Depreciation and amortization	847,710	765,813
Loss (gain) on disposal of property and equipment	6,971	(14,707)
Change in operating assets and liabilities:		
Accounts receivable, net	(306,931)	(143,086)
Grants receivable	4,555	(28,564)
Pledges receivable	25,000	85,000
Assets held by trustee	-	271,716
Other assets	(38,924)	(51,860)
Accounts payable and accrued liabilities	<u>118,451</u>	<u>517,212</u>
Total adjustments	<u>666,994</u>	<u>351,741</u>
Net cash provided by operating activities	<u>1,163,854</u>	<u>1,967,604</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Issuance of notes receivable	-	(193,207)
Proceeds from payments on notes receivable	-	244,113
Net change in certificates of deposit	(1,708)	(2,501)
Purchase of property and equipment	(1,264,754)	(1,515,816)
Proceeds from sale of property and equipment	<u>9,765</u>	<u>28,569</u>
Net cash used by investing activities	<u>(1,256,697)</u>	<u>(1,438,842)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowing on note payable	318,557	706,324
Payments on bonds payable	<u>-</u>	<u>(2,215,000)</u>
Net cash provided (used) by financing activities	<u>318,557</u>	<u>(1,508,676)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	225,714	(979,914)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,192,852</u>	<u>4,172,766</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,418,566</u>	<u>\$ 3,192,852</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:		
Interest Paid	<u>\$ 32,106</u>	<u>\$ 10,848</u>

NOTE A DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cenikor Foundation (Cenikor) is a nonprofit, tax exempt corporation incorporated on July 30, 1968, for the purpose of providing services to individuals, organizations and the community at large in the areas of treatment, rehabilitation, education, vocational training, and outreach programs related to the problems of chemical dependency. Rehabilitation services and fundraising activities are conducted from Cenikor's facilities in Houston, Waco and Fort Worth, Texas, and Baton Rouge, Lake Charles, and Jennings, Louisiana. Cenikor also operated an in-prison program for the State of Texas at Dayton, Texas, until August 2012.

All program participants at Cenikor's adult long-term residential facilities are required to live at the facility, and are provided food, housing, therapy, and vocational rehabilitation. Vocational rehabilitation includes providing industry services to various businesses and individuals in each city in which Cenikor operates one of these facilities. These services are performed by "first phase" resident members. During the second phase of the Cenikor program, participants continue residence at the facility, work at an outside job, and pay a monthly room and board fee.

In addition to the long-term facilities, Cenikor has other types of programs at other locations, including detoxification, short-term residential, outpatient, and residential for adolescents.

Concentration of Credit and Market Risk - Financial instruments which subject Cenikor to concentrations of credit risk consist principally of cash and receivables. Cenikor places its cash with financial institutions it believes to be creditworthy. Deposits may exceed Federal Deposit Insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and therefore, bear minimal risk. In monitoring this credit risk, Cenikor periodically evaluates the stability of the financial institution.

Use of Estimates - Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States (GAAP). Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents - For purposes of the statement of cash flows, Cenikor considers all unrestricted, highly liquid investments with a maturity of three months or less to be cash equivalents.

Accounts Receivable - Accounts receivable consists primarily of vocational services fees and is stated at the amount billed to customers. Cenikor provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. At June 30, 2013 and 2012, the allowance for doubtful accounts amounted to \$20,649 and \$21,539, respectively. Accounts receivable is ordinarily due 30 days after the issuance of the invoice.

Accounts receivable also includes insurance receivables which are charged for Medicaid-eligible and privately insured clients in the Lake Charles and Odyssey House locations. As of June 30, 2013 and 2012, the allowance for doubtful accounts is \$294,735 and \$45,241, respectively.

NOTE A DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Delinquent receivables are written off, based on individual credit evaluation and specific circumstances of the customer and when all reasonable collection efforts have been made on insurance claims.

Grants Receivables - Grants receivable consist of government grants and are considered to be fully collectible; accordingly, no allowance for doubtful accounts is required.

Pledges Receivables - Generally, no collateral or other security is required to support receivables. An allowance for doubtful accounts is established and accounts written off as needed based upon factors surrounding the credit risk of specific contributors. At June 30, 2013 and 2012, all pledges are from a single donor and are due within one year.

Notes Receivable - Notes receivable are carried at unpaid principal balances and are considered impaired if full principal or interest payments are not anticipated in accordance with contractual terms. Interest is recognized over the term of the note and is calculated using the simple-interest method on principal amounts outstanding.

Certificates of Deposit - Certificates of deposit have original maturities ranging between three months to one year and are reported at cost.

Property and Equipment - Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the date of donation. Buildings and equipment are depreciated using the straight-line method based on the estimated useful lives of the assets, generally as follows:

Buildings and improvements	5-30 years
Equipment and furniture	3-5 years
Vehicles	3 years

Financial Statement Presentation - Information regarding the financial position and activities of Cenikor is reported in three categories as follows:

Unrestricted Net Assets - represent expendable funds available for operations which are not otherwise limited by donor restrictions. Included in unrestricted net assets are funds designated by the Board of Directors for future expansion.

Temporarily Restricted Net Assets - consist of contributed funds subject to donor or grantor imposed restrictions related to a specific purpose or requiring a specific passage of time before the funds can be spent.

Permanently Restricted Net Assets - are subject to irrevocable donor restrictions requiring the assets be maintained in perpetuity for the purpose of generating investment income to fund current operations.

NOTE A DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Contributions - Contributions are recognized when the donor makes a promise to give to Cenikor that is, in substance, unconditional. Contributions that are restricted by the donor for future periods or a specific purpose are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Permanently restricted contributions consist of amounts to be held perpetually, based on donor-imposed requirements.

Unconditional promises to give that are expected to be collected within one year are recorded at their realizable value. Unconditional promises to give that are expected to be collected after one year or more are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included as contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Cenikor reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Cenikor reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Revenue Recognition - Cenikor records revenues from vocational services, outpatient services, Medicaid and private insurance, and other services when earned as the services are delivered. Cenikor invoices on a daily, weekly or monthly basis, as appropriate. Insurance revenues are recorded net of contractual allowances.

Gifts in Kind - Donations are recorded as in-kind contributions at the estimated fair value of the gift. The fair value of food is based on pre-established standards. Donations of clothing, furniture and other goods are recorded when received. Both the contribution value and related program expense are computed using standards set by management and which approximate the fair value for second-hand clothing and other items.

Functional Expenses - Functional expenses which cannot readily be related to a specific program are charged to the various programs based upon hours worked, square footage, number of program staff or other reasonable methods for allocating Cenikor's multiple functional expenditures.

Income Taxes - Cenikor is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, Cenikor is subject to taxes on unrelated business income. No unrelated business income tax was paid in 2013 and 2012.

**NOTE A DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Cenikor believes that all significant tax positions utilized by Cenikor will more likely than not be sustained upon examination. As of June 30, 2013, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2010 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as general and administrative expense in the statement of activities.

Subsequent Events - The Foundation has evaluated subsequent events through November 13, 2013, the date the financial statements were available to be issued. No subsequent events occurred which require adjustment or disclosure to the financial statements at June 30, 2013.

NOTE B ACQUISITION OF OTHER ORGANIZATIONS

Effective July 11, 2012, Cenikor acquired the Freeman Center, a non-profit, tax-exempt substance abuse treatment center in Waco, Texas through donation of all of the Freeman Center's assets and liabilities, for a net contribution of \$32,421. The assets acquired and liabilities assumed were recorded at fair market value at the date of acquisition. Simultaneously with the contribution of the net assets, the line of credit payable to Cenikor was extinguished. The balances at acquisition date were as follows:

Cash and cash equivalents	\$ 42,583
Accounts receivable, net	35,026
Property and equipment	291,426
Accrued liabilities	(187,776)
Line of credit extinguished	<u>(148,838)</u>
Net assets acquired	<u>\$ 32,421</u>

The net assets acquired include \$24,215 in permanently restricted net assets.

Effective August 1, 2011, Cenikor acquired Odyssey House through donation of all of Odyssey House's assets and liabilities, for a net contribution of \$1,110,563. The assets acquired and liabilities assumed were recorded at fair market value at the date of acquisition. The balances at acquisition date were as follows:

Cash and cash equivalents	\$ 60,779
Accounts receivable, net	190,296
Property and equipment	908,834
Accrued liabilities	<u>(49,346)</u>
Net assets acquired	<u>\$ 1,110,563</u>

The net assets acquired included \$44,676 restricted by the donors for various program purposes and \$5,000 permanently restricted for an endowment fund.

CENIKOR FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE C ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following at June 30:

	<u>2013</u>	<u>2012</u>
Trade receivables, vocational services	\$ 779,480	\$ 676,659
Insurance receivables	733,153	289,617
Accrued revenues	43,480	10,836
Employee receivables	10,289	7,517
Other	<u>15,116</u>	<u>6,328</u>
	1,581,518	990,957
Allowance for doubtful accounts	<u>(315,384)</u>	<u>(66,780)</u>
	<u>\$ 1,266,134</u>	<u>\$ 924,177</u>

NOTE D NOTE RECEIVABLE

Cenikor extended a line of credit of \$300,000 to The Freeman Center, with an interest rate of 5% per annum and was collateralized by all of the Freeman Center's real property and equipment. The note receivable of \$148,838 was extinguished during the year as more fully described in Note B.

NOTE E PROPERTY AND EQUIPMENT

The cost and accumulated depreciation of property and equipment were as follows at June 30:

	<u>2013</u>	<u>2012</u>
Land	\$ 1,509,645	\$ 1,465,425
Buildings and improvements	13,250,161	11,554,154
Equipment and furniture	1,954,880	1,778,303
Vehicles	901,450	849,746
Construction in progress	<u>163,570</u>	<u>878,406</u>
	17,779,706	16,526,034
Less accumulated depreciation	<u>(8,441,054)</u>	<u>(7,896,859)</u>
	<u>\$ 9,338,652</u>	<u>\$ 8,629,175</u>

Depreciation expense amounted to \$829,991 and \$685,154 for the years ended June 30, 2013 and 2012, respectively. During fiscal 2013, Cenikor disposed of property and equipment with an original cost of \$302,508 and accumulated depreciation of \$285,772. During fiscal 2012, Cenikor disposed of property and equipment with an original cost of \$168,206 and accumulated depreciation of \$154,094.

NOTE F RETIREMENT PLANS

Cenikor has a defined contribution pension plan covering substantially all employees. Cenikor makes annual contributions to the plan at the discretion of Cenikor's Board of Directors. For the years ended June 30, 2013 and 2012, Cenikor's contributions to the plan amounted to \$241,402 and \$197,978, respectively.

NOTE G NOTE PAYABLE

On November 28, 2011, Cenikor obtained a revolving note payable with a bank which provided for maximum borrowings of \$3,000,000 and matures November 28, 2013, at which time outstanding borrowings will convert to a term note with monthly principal and interest payments through October 28, 2018. Interest at prime plus 0.5% is due monthly (3.75% at June 30, 2013). The note is collateralized by land and building with a net book value of \$506,905 and an appraised value of \$3,370,000.

NOTE H RESTRICTIONS OF NET ASSETS

Temporarily restricted net assets consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Baton Rouge	\$ 113,569	\$ 56,195
Deer Park	30,676	42,721
Corporate	10,781	12,233
Odyssey House	1,759	7,612
Fort Worth	<u>225</u>	<u>674</u>
	<u>\$ 157,010</u>	<u>\$ 119,435</u>

Permanently restricted net assets for a permanent endowment fund consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Odyssey House	\$ 5,000	\$ 5,000
Waco	<u>24,215</u>	<u>-</u>
	<u>\$ 29,215</u>	<u>\$ 5,000</u>

NOTE I **RELEASE OF RESTRICTIONS ON NET ASSETS**

In 2013 and 2012, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	<u>2013</u>	<u>2012</u>
Baton Rouge	\$ 87,826	\$ 155,716
Deer Park	71,133	91,695
Corporate	1,452	-
Odyssey House	35,853	51,064
Fort Worth	73,449	55,049
Waco	<u>2,000</u>	<u>88,000</u>
	<u>\$ 271,713</u>	<u>\$ 441,524</u>

NOTE J **RELATED PARTIES**

During 2012, three Cenikor officers were appointed to the Board of The Freeman Center. During fiscal 2012, Cenikor managed The Freeman Center for a monthly fee of \$3,000. Cenikor also extended credit to The Freeman Center during fiscal 2012. In July 2012, as more fully described in Note B, Cenikor acquired The Freeman Center and extinguished the debt.

NOTE K **COMMITMENTS**

Cenikor leases office space, office equipment and parking spaces under operating leases with future commitments as follows:

2014	\$ 108,671
2015	104,614
2016	103,332
2017	<u>16,920</u>
	<u>\$ 333,537</u>

Rent expense amounted to \$132,773 and \$90,740 for 2013 and 2012, respectively.

NOTE L CONTINGENCIES

Amounts received from government and other grants require the fulfillment of certain conditions as set forth in the grant contracts. Cenikor intends to fulfill the conditions of all grants, recognizing that failure to fulfill the conditions could result in the return of the funds to grantors. Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, could become a liability of Cenikor. In management's opinion, disallowed claims, if any, would not have a material adverse effect on Cenikor's financial position or results of operations.

**SINGLE AUDIT REPORTS ON EXPENDITURES OF
FEDERAL AWARDS PROGRAMS**

CENIKOR FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Contract or Pass-through Grantor's I.D. Number	Current Year Revenues	Current Year Expenditures
U.S. Department of Health and Human Services				
Passed through State of Louisiana Department of Health and Hospitals				
Block Grants for Prevention and Treatment of Substance Abuse Emergency Shelter Grants Program	93.959	330-101861	\$ 1,028,679	\$ 1,028,679
U.S. Department of Health and Human Services				
Passed through State of Texas Department of State Health Services				
Treatment Youth Services	93.959	2012-039411	90,639	90,639
Treatment Adolescent Outpatient Services	93.959	2012-039410	1,113	1,113
Treatment Adult Specialized Female Outpatient/Detox/Residential Services	93.959	2012-039148	8,708	8,708
Treatment Adult Outpatient/Detox/Residential Services	93.959	2012-039317	45,041	45,041
Treatment Youth Services	93.959	2013-041597	502,505	502,505
Treatment Adolescent Outpatient Services	93.959	2013-041774	6,414	6,414
Treatment Adult Specialized Female Outpatient/Detox/Residential Services	93.959	2013-041773	165,110	165,110
Treatment Adult Outpatient/Detox/Residential Services	93.959	2013-041857	601,088	601,088
Treatment Co-Occurring Psychiatric & Substance Abuse Disorder Services	93.959	2013-041689	19,710	19,710
			<u>1,440,328</u>	<u>1,440,328</u>
U.S. Department of Health and Human Services				
Passed through State of Louisiana Department of Health and Hospitals				
Substance Abuse and Mental Health Services - Access to Recovery	93.275		10,508	10,508
U.S. Department of Health and Human Services				
Passed through Harris County Hospital District				
Healthcare for the Homeless Program	93.224	H80CS00038-12	132,976	132,976
U.S. Department of Health and Human Services				
Passed through State of Louisiana Department of Health and Hospitals				
State Adolescent Substance Abuse Treatment - Enhancement and Dissemination	93.243	719068	12,360	12,360
Total U.S. Department of Health and Human Services			<u>2,624,851</u>	<u>2,624,851</u>

See accompanying notes to schedule of expenditures of federal awards.

CENIKOR FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Contract or Pass-through Grantor's I.D. Number	Current Year Revenues	Current Year Expenditures
U.S. Department of Housing and Urban Development Department of Housing and Urban Development-Office of Community Planning and Development Passed through City of Fort Worth Community Development Block Grants/Entitlement Grants	14.218	42380	<u>60,692</u>	<u>60,692</u>
U.S. Department of Housing and Urban Development Department of Housing and Urban Development-Office of Community Planning and Development Passed through City of Baton Rouge Community Development Block Grants	14.218		<u>69,970</u>	<u>69,970</u>
Total U.S. Department of Housing and Urban Development			<u>130,662</u>	<u>130,662</u>
Total Expenditures of Federal Awards			<u>\$ 2,755,513</u>	<u>\$ 2,755,513</u>

See accompanying notes to schedule of expenditures of federal awards.

CENIKOR FOUNDATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2013

NOTE A BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Cenikor and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B RECONCILIATION TO FINANCIAL STATEMENTS

The following reconciles the accompanying schedule of expenditures of Federal awards to government grant and contract revenue as reported in the financial statements of Cenikor:

Total expenditures per Statement of Expenditures of Federal Awards	\$ 2,755,513
Other vendor contracts	<u>326,630</u>
Total grant and contract revenue per financial statements	<u>\$ 3,082,143</u>

**CENIKOR FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Significant deficiencies or material weaknesses related to the audit of the schedule of expenditures of federal awards reported?

☒ Yes ☐ No

Noncompliance material to schedule of expenditures of federal awards noted?

☐ Yes ☒ No

Federal Awards

Significant deficiencies or material weaknesses related to the audit of the major federal award programs reported?

☒ Yes ☐ No

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

☒ Yes ☐ No

Identification of major programs:

CFDA Number

93.959

Name of Federal Program

Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between Type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

Finding 2013-01

Applicable Federal Program: Block Grants for Prevention and Treatment of Substance Abuse CFDA 93.959

Criteria: Cenikor must comply with special grant provisions, one of which requires the completion of a comprehensive discharge plan that includes specific elements.

Condition: We reviewed 40 participant files and noted that in twelve instances the discharge plan was not signed by the participant as required by the grant agreement.

Questioned costs: None

Cause: Inconsistent adherence to policy in place to ensure that the discharge plan is performed and documented in the participant's file.

Effect: Grant non-compliance could result in sanctions from the grantor.

Recommendation: Cenikor should incorporate a checklist of required documents in each participant file and implement an internal review process to verify all the proper forms are completed and included in the file.

View of Responsible Officials and Planned Corrective Actions: We recognized inconsistent adherence to Policy #4060c, which states the Initial Discharge Plan is to be completed in conjunction with Initial Treatment Plan. Additionally, the policy states "All services will be documented and placed in the client's clinical file within 3 services days of service delivery."

We implemented appropriate staffing changes to ensure compliance. In addition, we concur with recommendation of checklist and internal review process and are implementing these recommendations.

Finding 2013-02

Applicable Federal Program: Block Grants for Prevention and Treatment of Substance Abuse CFDA 93.959

Criteria: Cenikor must comply with special grant provisions, one of which requires the completion of an initial treatment plan assessment within five days of admission.

Condition: We reviewed 40 participant files and noted that seventeen initial treatment plan assessments were performed after the five day requirement.

Questioned costs: None

Cause: Inconsistent adherence to policy in place to ensure that the initial treatment plan is performed within five days of admission and documented in the participant's file.

Effect: Grant non-compliance could result in sanctions from the grantor.

**CENIKOR FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

Recommendation: Cenikor should incorporate a checklist of required documents in each participant file and implement an internal review process to verify all the proper forms are completed and included in the file.

View of Responsible Officials and Planned Corrective Actions: We recognized inconsistent adherence to Policy # 4050c, which states – "The Master/Initial Treatment Plan will be completed and filed in the client record within five individual (5) service days of admission".

We implemented appropriate staffing changes to ensure compliance. In addition, we concur with recommendation of checklist and internal review process and are implementing these recommendations.

Finding 2013-03

Applicable Federal Program: Block Grants for Prevention and Treatment of Substance Abuse CFDA 93.959

Criteria: Cenikor must comply with special grant provisions, one of which requires the completion of a bio psychosocial assessment within 72 hours of admission.

Condition: We reviewed 40 participant files and noted that three bio psychosocial assessments were performed after the 72 hour requirement.

Questioned costs: None

Cause: Inconsistent adherence to policy in place to ensure that the bio psychosocial assessment is performed within 72 hours of admission and documented in the participant's file.

Effect: Grant non-compliance could result in sanctions from the grantor.

Recommendation: Cenikor should incorporate a checklist of required documents in each participant file and implement an internal review process to verify all the proper forms are completed and included in the file.

View of Responsible Officials and Planned Corrective Actions: We recognized inconsistent adherence to Policy #4025, which states – "An initial client psychosocial assessment and diagnosis of addictive disorder will be completed by a licensed Qualified Professional (QP) during the client admission process".

We implemented appropriate staffing changes to ensure compliance. In addition, we concur with recommendation of checklist and internal review process and are implementing these recommendations.

Finding 2013-04

Applicable Federal Program: Block Grants for Prevention and Treatment of Substance Abuse CFDA 93.959

Criteria: Cenikor must comply with special grant provisions, one of which requires the completion of a participant's physical exam within 72 hours of admission.

Condition: We reviewed 40 participant files and noted that three physical exams were performed after the 72 hour requirement.

**CENIKOR FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

Questioned costs: None

Cause: There are no procedures in place to ensure that the physical exam is performed within 72 hours of admission and documented in the participant's file.

Effect: Grant non-compliance could result in sanctions from the grantor.

Recommendation: Cenikor should incorporate a checklist of required documents in each participant file and implement an internal review process to verify all the proper forms are completed and included in the file.

View of Responsible Officials and Planned Corrective Actions: Existing policy regarding physical exams for other programs is being modified and updated to comply with this particular contract requirement. We concur with recommendation of checklist and internal review process and are implementing these recommendations.

Finding 2013-05

Applicable Federal Program: Block Grants for Prevention and Treatment of Substance Abuse CFDA 93.959

Criteria: Cenikor must comply with special grant provisions, one of which requires the completion of a detoxification plan within 24 hours of admission.

Condition: We reviewed 40 participant files and noted that one detoxification plan was performed after the 24 hour requirement.

Questioned costs: None

Cause: There are no procedures in place to ensure that the detoxification plan is performed within 24 hours of admission and documented in the participant's file.

Effect: Grant non-compliance could result in sanctions from the grantor.

Recommendation: Cenikor should incorporate a checklist of required documents in each participant file and implement an internal review process to verify all the proper forms are completed and included in the file.

View of Responsible Officials and Planned Corrective Actions: We will develop the recommended checklists and additional review processes to ensure compliance.

Finding 2013-06

Applicable Federal Program: Block Grants for Prevention and Treatment of Substance Abuse CFDA 93.959

Criteria: Cenikor must comply with special grant provisions, one of which requires the maintenance of daily records of medical status and response to treatment for detoxification participant.

**CENIKOR FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

Condition: We reviewed 40 participant files and noted that one detoxification participant was missing the daily records of medical status and response to treatment for the participant.

Questioned costs: None

Cause: There are no procedures in place to ensure that the daily records of medical status and response to treatment are documented in the detoxification participant's file.

Effect: Grant non-compliance could result in sanctions from the grantor.

Recommendation: Cenikor should incorporate a checklist of required documents in each participant file and implement an internal review process to verify all the proper forms are completed and included in the file.

View of Responsible Officials and Planned Corrective Actions: We will develop the recommended checklists and additional review processes to ensure compliance.

Finding 2013-07

Applicable Federal Program: Block Grants for Prevention and Treatment of Substance Abuse CFDA 93.959

Criteria: Cenikor must comply with special grant provisions, one of which requires accurate billing for services rendered.

Condition: We reviewed 40 participant files and noted that Cenikor over billed for four participants for a total of 17 days.

Questioned costs: \$2,246

Cause: For three participants, the discharge date was improperly entered into the system by the facility resulting in 16 days overbilled. For one participant, the same date of service was billed for detox and residential services. Both types of errors were caused by inconsistent adherence to existing controls.

Effect: Grant non-compliance could result in sanctions from the grantor.

Recommendation: Discharge dates entered by counselors should be reviewed by the clinical manager for accuracy. Billing logs that are prepared by billing clerks to ensure duplicate billings do not occur should be reviewed by the supervisor to prevent duplicate billings.

View of Responsible Officials and Planned Corrective Actions: Cenikor acknowledges these errors and has or will take the following steps:

- 1) Billing clerk maintains form on each client, including dates billed and to whom, to avoid duplicate or missed days billed.
- 2) Billing department reviews system for any open files on discharged clients; notifies counselor to close account to prevent accidental billings.
- 3) Clinical Managers will be required to review all discharge dates input by counselors to confirm accuracy.

**CENIKOR FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

- 4) Consultant has been engaged to improve billing controls and procedures.
- 5) Install Electronic Health Record (EHR) with additional built-in controls. Tentative completion date is June 30, 2014.
- 6) Questioned costs of \$2,246 to be deducted from future billings to Texas Department of State Health Services.

Section IV – Schedule of Prior Year Federal Award Findings and Questioned Costs

None



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Cenikor Foundation

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cenikor Foundation (Cenikor), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cenikor's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cenikor's internal control. Accordingly, we do not express an opinion on the effectiveness of Cenikor's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Cenikor's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency as item 2013-07.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cenikor's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* as item 2013-07.

Cenikor Foundation's Response to Findings

Cenikor Foundation's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Cenikor Foundation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cenikor's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cenikor's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hager + Pearson Company, P.C.

Houston, Texas
November 13, 2013



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Cenikor Foundation

We have audited Cenikor Foundation's (Cenikor) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Cenikor's major federal programs for the year ended June 30, 2013. Cenikor's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Cenikor's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cenikor's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Cenikor's compliance.

Opinion on Each Major Federal Program

In our opinion, Cenikor complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-01, 2013-02, 2013-03, 2013-04, 2013-05, 2013-06, and 2013-07. Our opinion on each major federal program is not modified with respect to these matters.

Cenikor Foundation's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Cenikor Foundation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Cenikor is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cenikor's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cenikor's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-01, 2013-02, 2013-03, 2013-04, 2013-05, 2013-06, and 2013-07, that we consider to be significant deficiencies.

Cenikor Foundation's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Cenikor Foundation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Hyatt + Pearson Company, P.C.

Houston, Texas
November 13, 2013